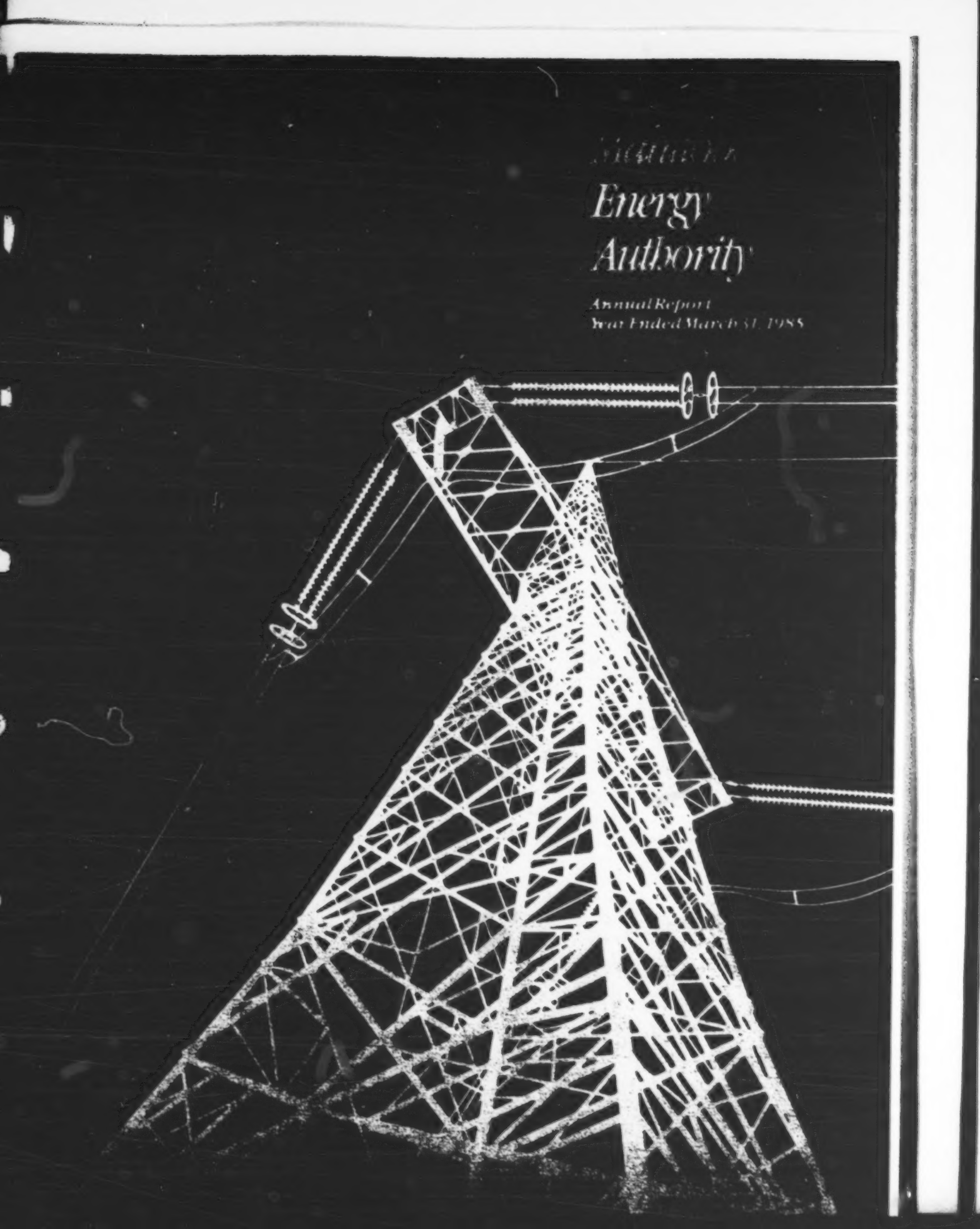
Energy Authority

Annual Report
Year Ended March 31, 1985



The Manitoba Energy Authority

■ The Manitoba Energy Authority is a Manitoba Crown corporation responsible for ensuring the long-term energy security of the Province and negotiating the export and import of electrical energy from and into the Province.

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The Honourable
Pearl McGonigal
Lieutenant Governor of
the Province of Manitoba

May it please your Honour:

I have the honour of presenting to you the Annual Report of the Manitoba Energy Authority for the fiscal year ended March 31, 1985.

This report records the activities of the Corporation.

Wilson Parasiuk
Minister.

Minister's Message

■ Hydro-electricity has become an increasingly important form of energy in recent years. Clean, inexpensive, reliable and renewable, it offers substantial advantages over alternative energy sources.

Manitoba has the good fortune to be endowed with immense hydraulic resources - capable of supplying our electricity needs well into the twenty-first century. In the meantime, Manitoba has the potential to produce large amounts of inexpensive hydro-electricity for export.

Manitoba created the Manitoba Energy Authority to ensure the judicious development and allocation of our energy supply. The Authority has taken the lead in synchronizing the efforts of provincial government departments and Manitoba Hydro to accomplish these aims. In doing so, the Manitoba Energy Authority has played an important role in ensuring that our hydro-electric resources are utilized to build a stronger Manitoba.

Under its mandate to negotiate power exports it has successfully negotiated Manitoba's first major firm power export. The Authority has also made a major contribution to our goal of maximizing the benefits for Manitoba from construction of the Limestone Generating Station. The past year's activities have been exciting and fruitful for the Authority and we look forward to an equally rewarding future.

Wilson Parasiuk
Minister of Energy and Mines

Chairperson and Executive Director's Message

Under the guidelines established by legislation and subsequent direction from the Minister Responsible for administration of the Manitoba Energy Authority, the Honourable Wilson Parasiuk, the Manitoba Energy Authority has substantially increased its activities over the past year.

Our primary responsibility has continued to be the active promotion of export sales of hydro-electricity generated by Manitoba Hydro. In this regard we were pleased with the decision of the National Energy Board to issue a license to Manitoba Hydro to export firm power and energy to Northern States Power (N.S.P.) of Minneapolis for 12 years commencing May 1, 1993. The license authorizes the export of 500 megawatts of firm power at a 75% capacity factor pursuant to a contract between Manitoba and N.S.P. signed June 14, 1984.

Progress on other export negotiations with a number of Canadian and United States utilities has been encouraging. We expect that further firm power sale agreements can be reached by the end of 1986.

Our mandate to coordinate a range of activities related to the Limestone Generating Station project has proved to be both challenging and exciting. Perhaps the most satisfying achievements over the past year have been the success of the Limestone Training and Employment Agency and the negotiation of Manitoba's first industrial benefits agreement as part of Manitoba Hydro's contract with Canadian General Electric for the provision of turbines and generators for the Limestone Generating Station. Both confirm the practicality of combining the economical development of our hydro-electric resources with a commitment to the overall economic and social well-being of Manitoba.

The year has been a busy one for the Authority, as necessary staff were hired and integrated and our basic office facilities established. The achievements of the past year in fulfilling our mandate while strengthening our organization are a credit to the dedication and hard work of all our staff.

Our work has been immeasurably aided by the cooperation we have had from Manitoba Hydro and numerous government departments. The management and staff of Manitoba Hydro deserve our particular thanks.

M. Eliesen

Marc Eliesen
Chairperson and Executive Director
Manitoba Energy Authority

The Manitoba Energy Authority Background Information

■ The Manitoba Energy Authority was established by the Manitoba Energy Authority Act, assented to on July 29, 1980. The Act calls for an Electrical Energy Marketing Committee and an Energy Allocation Committee to be established. The Board of Directors of the Manitoba Energy Authority also handled the responsibilities of each of these committees during the fiscal year ended March 31, 1985.

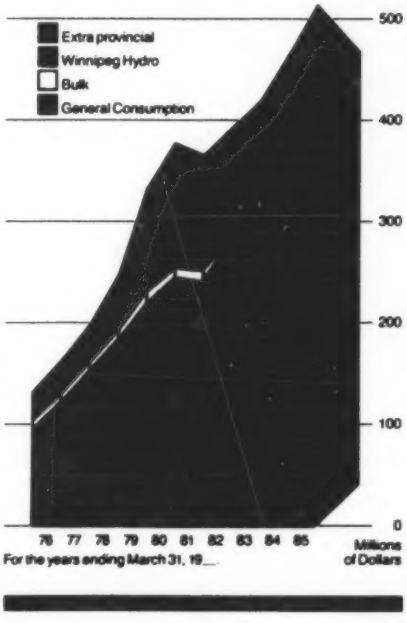
In general, the Manitoba Energy Authority is responsible for formulating and implementing policies that ensure the long-term energy security of Manitobans. The Act designates the Manitoba Energy Authority as the Agency responsible for investigating potential extra-provincial markets for electrical energy and for negotiating the sale or purchase of electrical energy exported from or imported into the Province. In addition, the Manitoba Energy Authority performs related duties as directed by the Minister of Energy and Mines or the Lieutenant Governor-In-Council.

Integrated System-Manitoba Hydro & Winnipeg Hydro
Year ending March 31st, 1985

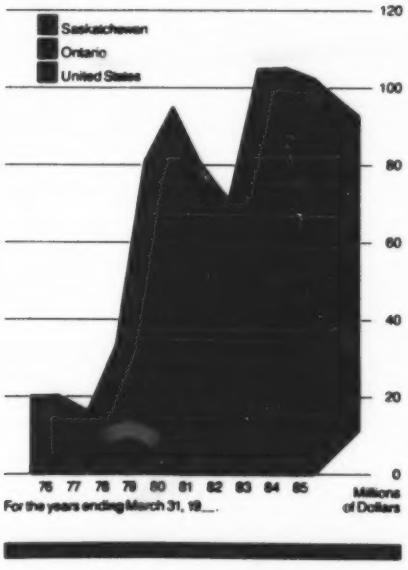
Winter Capability *(000 kW)*	3,901
Manitoba Firm Peak Demand *(000 kW)*	2,952
Total Generated and Purchased *(000,000 kWh)*	21,408
Firm Energy Supplied for Manitoba *(000,000 kWh)*	14,993

Exports *(000,000 kWh)*	
Ontario	795
Saskatchewan	233
United States	4,739
Total	5,767

Revenue from the Sale of Power.



Revenue from Extraprovincial Sales.



Activities of the Manitoba Energy Authority

■ In the past year, the Manitoba Energy Authority hired its own staff and entered into funding arrangements resulting in greater autonomy which more accurately reflects its crown corporation status. The corporation was active in the field of power export negotiations, culminating in a firm long-term sale to the Northern States Power Company of Minneapolis. The Manitoba Energy Authority has undertaken various activities to encourage energy intensive industries to invest and locate in Manitoba. In addition, the Manitoba Energy Authority assumed the lead responsibility for coordinating the work of government departments and Manitoba Hydro in developing and implementing policies related to training and employment, purchasing and tendering, industrial benefits and communications for the Limestone Generating Station project.

Administrative and Financial

Prior to 1984-85, the Manitoba Energy Authority had no staff. In 1984, the Manitoba Energy Authority hired a small professional staff to assist the Board of Directors in carrying out its duties. The work of the Authority's staff members was supplemented by technical staff support from Manitoba Hydro and the Department of Energy and Mines. The Department of Energy and Mines also provides accounting and administrative support to the Authority.

In 1984, new funding arrangements were instituted for the Manitoba Energy Authority. In prior years, all operational funding was provided for in a Department of Energy and Mines Appropriation, as part of that Department's Spending Estimates. For the first time, provision was made in the Province's 1984 Loan Act in the amount of $5.0 million to sustain the operations of the Manitoba Energy Authority. In conjunction with these new funding arrangements, the Corporation for the first time has included audited financial statements as part of its annual report.

■ *230 KV A.C. transmission line.*

Current Export Agreements

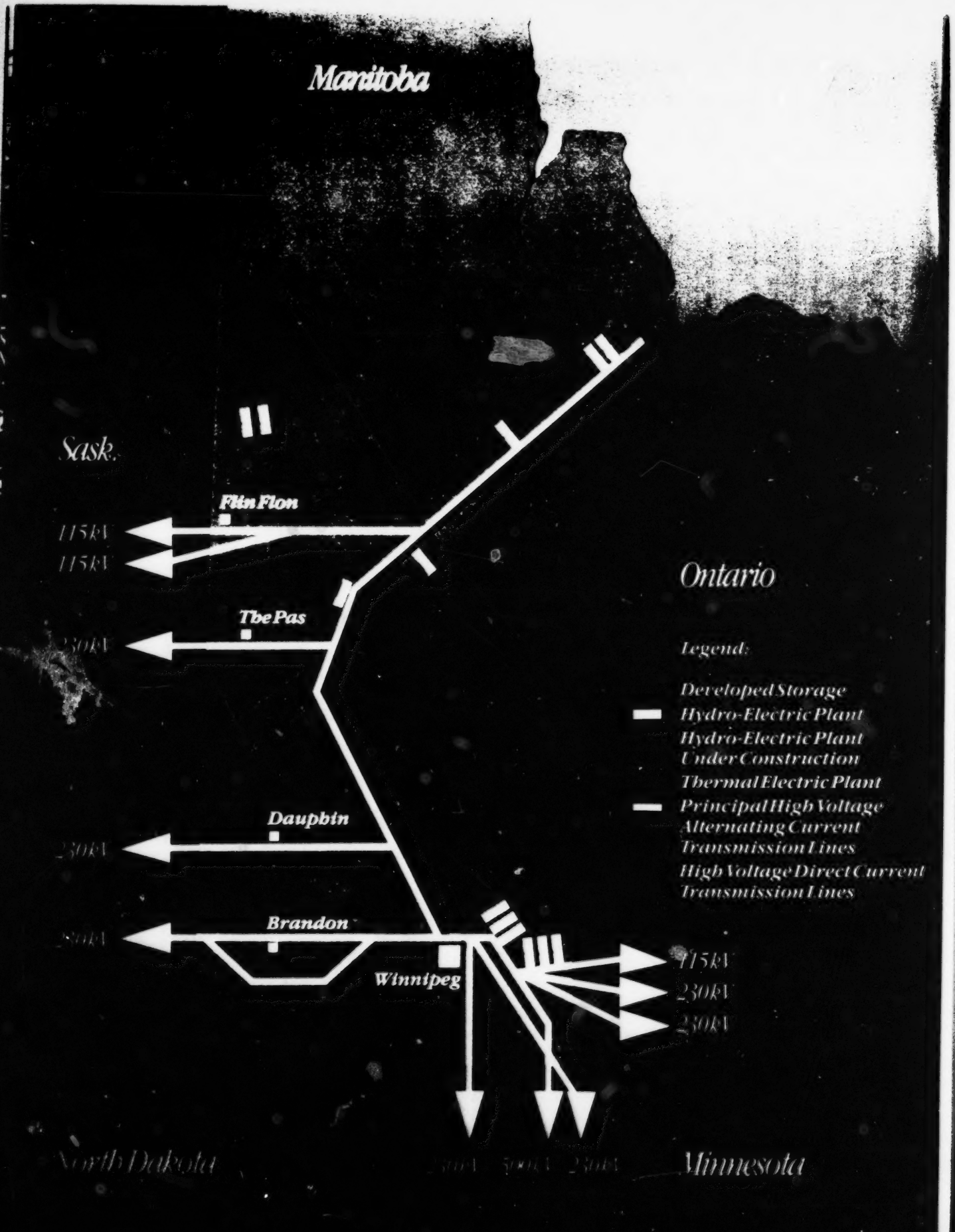
Current Export Agreements

Utility	*Type*	*Duration*	*Amount*	*Terms*
Northern States Power (N.S.P.)	Interruptible	1980-1992	19,500,000 MWh	Greater of cost plus 10% or shared cost savings formula.
Northern States Power (N.S.P.)	Firm Power Sale	1984-1992 (summer)	200 MW at 20% monthly Capacity Factor	Rates negotiated 3 years prior to delivery.
Northern States Power (N.S.P.)	Diversity Exchange	1980-1992	300 MW at 20% monthly Capacity Factor	No charge for capacity. Energy at greater of MAPP* peaking power rate at time of delivery or supplier's cost plus 10%.
Northern States Power (N.S.P.)	Firm Power Sale	1993-2005	500 MW/year at 75% Annual Capacity Factor	Capacity charge at 80% of NSP's Sherco thermal plant. Energy charge at 80% of Sherco's variable costs.
Minnesota Power & Light (M.P.&L.)	Interruptible	1976-1986	2,000,000 MWh	Price based on shared cost savings formula.
Minnkota	Interruptible	Ongoing	As available	Negotiated formula based on MAPP* rates.
Otter Tail Power	Interruptible	Ongoing	As available	Negotiated formula based on MAPP* rates.
United Power Association	Interruptible	Ongoing	As available	Negotiated formula based on MAPP* rates.
Saskatchewan Power Corporation	Interruptible	Ongoing	As available	
Ontario Hydro	Interruptible	Ongoing	As available	

**MAPP – Mid-Continental Area Power Pool*

Manitoba Hydro's Load Dispatch Office in Winnipeg continuously monitors available power and power flows on each of the utility's interconnections, dispatching available power as required.

■ *Switchyard at Radisson Converter Station.*


Manitoba
Sask.
Flin Flon
115kV
115kV
The Pas
230kV
Ontario
Legend:
Developed Storage
Hydro-Electric Plant
Hydro-Electric Plant
Under Construction
Thermal Electric Plant
Principal High Voltage
Alternating Current
Transmission Lines
High Voltage Direct Current
Transmission Lines
Dauphin
230kV
Brandon
230kV
Winnipeg
115kV
230kV
230kV
North Dakota
230kV
500kV
230kV
Minnesota

Power Export Negotiations

■ In 1984, the Manitoba Energy Authority, in conjunction with Manitoba Hydro, negotiated Manitoba's first major firm power sale. Northern States Power (N.S.P.) of Minneapolis, Minnesota will purchase 500 megawatts of capacity from 1993 to 2005 at an annual average capacity factor of 75%.

Northern States Power Sale

Size: 500 megawatts/year (firm power)
3285 gigawatt hours/year (at 75% capacity factor)

Duration: 12 years (1993-2005)

Pricing: 80% of NSP's avoided cost at its coal-fired thermal plant, Sherco 3.

Projected Revenues/Profit:
("as received" dollars)
Revenues $3.2 billion
Profit $1.7 billion

Projected Revenues/Costs:
(discounted to 1984 dollars)
Revenues $707 million
Costs $305 million
Profit $402 million.

The Minister of Energy and Mines has announced that a Manitoba Energy Heritage Trust Fund will be established. It is intended that the assets of this Fund will be used for the purpose of making investments or loans in projects which, through the creation of employment, will promote the economic and social development of the province.

The government's intention is that the Fund will be financed from a portion of the net revenues from Manitoba electricity export sales. Manitoba Hydro will recover all costs incurred in making export sales. The Authority will receive an amount equal to the expenses it incurs in negotiating the export sale agreements. The remaining balance, or profit associated with the sales, will be divided equally between Manitoba Hydro and the Manitoba Energy Heritage Trust Fund.

Progress was made in negotiations for future firm power sales to other United States utility groups, and with Saskatchewan Power and Ontario Hydro.

Current power export negotiations include:

- negotiations with Saskatchewan Power, a crown corporation, for a firm power sale of 300 megawatts, over a 30-year period, starting in the early 1990's.
- negotiations with the Western Area Power Administration (WAPA), a United States federal government agency, for a firm power sale of 1,200 megawatts for up to 35 years beginning in the mid 1990's. Located in Golden, Colorado, WAPA distributes electricity to utilities in 15 states.
- negotiations with Ontario Hydro, a crown corporation, for a firm power sale of 300 - 1100 megawatts over 15 - 30 years, starting in the mid- to late-1990s.
- negotiations with the Minnesota-Wisconsin Power Supplier's Group, composed of seven utilities in 3 states, for a firm power sale of 500 to 1,000 megawatts over a 15 to 30 year period.
- negotiations with "Wismintoba", a group of 8 utilities in the midwestern states, for a firm power sale of 1,200 megawatts over a period of 15 to 30 years.

Major Power Export Negotiations *(as of March 31, 1985)*

Potential Purchaser	*Type of Sale*	*Amount (megawatts)*	*Duration*
Saskatchewan Power Corporation	Firm	300	30 years starting in early 1990's
Ontario Hydro	Firm	300-1100	15 - 30 years starting mid-to late-1990's
Western Area Power Administration	Firm	up to 1200	up to 35 years starting in mid 1990's
Minnesota-Wisconsin Power Supplier's Group	Firm	500-1000	15 - 30 years
Wismintoba	Firm	1200	15 - 30 years

The conclusion of another major power sale would likely necessitate the advancement of the construction of the 1300-megawatt Conawapa Generating Station, downstream from Limestone on the Nelson River.

The Nebraska Public Power District cancelled further work on the seasonal diversity exchange project known as the Mandan Line Project. The major reason cited was the lower-than-expected load growth. In the past 10 years, Nebraska Public Power had invested about $35 million and Manitoba Hydro about $5 to $6 million on this project. The Authority has initiated discussions on establishing seasonal diversity exchanges with other summer peaking neighbours in the United States.

■ *Bipoles 1 and 2 carrying power from the Nelson River System.*

Limestone Planning and Coordination

■ In 1984, the Manitoba Energy Authority was charged by the Province with the responsibility to coordinate the development and implementation of policies related to training and employment, purchasing and tendering, industrial benefits and communications for the Limestone Generating Station project.

In conjunction with Manitoba Hydro and Provincial Government Departments, the Manitoba Energy Authority initiated the establishment of northern training programs through the newly-formed Limestone Training and Employment Agency. This Agency will coordinate the delivery of training by Provincial and Federal Government Departments.

New purchasing and tendering policies were introduced at Manitoba Hydro to encourage the participation of Manitoba companies in the Limestone Project. Business information seminars were held in Brandon, Thompson, The Pas, Gillam and Winnipeg. Also, two sourcing directories were prepared and distributed to assist companies to locate and use Manitoba and Northern Manitoba firms in their subcontracts and in their supply contracts for hydro development projects.

One of the year's major achievements was the negotiation by the Manitoba Energy Authority of an industrial benefits package as part of the Canadian General Electric (CGE) contract to provide turbines and generators for the Limestone Generating Station. The package, which will bring as much employment to Manitoba during the term of the contract as if the equipment was manufactured here, committed CGE to:

- invest at least $10 million in long term viable operations in Manitoba
- initiate a $2 million northern economic development program, using CGE's expertise to help stimulate northern Native businesses
- source a minimum 15% of the labour component of the turbines and generators in Manitoba
- create a minimum of 100 new jobs in Manitoba's high technology industries
- contribute $100,000 in research grants to each of the Manitoba High Voltage Direct Current Research Centre and the Manitoba Microelectronics Centre.

It is estimated that the results of the economic activities from this industrial benefits agreement will generate $150 million in long term benefits to Manitoba.

Finally, the Authority opened information offices in Thompson and Winnipeg to serve individuals and businesses interested in acquiring information on Limestone.

■ *Long Spruce Generating Station on the Lower Nelson River, 35 km upstream from the Limestone Generating Station project.*

Energy Intensive Industries

The Manitoba Energy Authority engaged in a joint study of the construction and operation of an aluminum smelter in Manitoba with the Aluminum Company of America. In December, 1984, Alcoa decided to withdraw from the study, citing as reasons a poor international market in aluminum and changes in its corporate priorities. At the time of its withdrawal, Alcoa noted that Manitoba is among the leading contenders in the world for the establishment of a greenfield smelter. The Authority continued discussions with a number of European and Asian aluminum producers who have expressed interest in locating in Manitoba.

Continued efforts are being made to inform other energy intensive industries of the advantages offered by Manitoba's inexpensive hydro-electricity. The Manitoba Energy Authority has cooperated with various government departments and industries to examine the viability of new industrial developments which would broaden Manitoba's industrial base, while increasing the economic use of our hydro-electric resource.

Hydro Electric Generating Stations in Manitoba

Developed Sites	***River***	***Winter Capacity in Megawatts***	***Completed***
Kelsey	Upper Nelson	224	1972
Kettle	Lower Nelson	1,272	1974
Long Spruce	Lower Nelson	980	1979
Jenpeg	Upper Nelson	126	1979
Grand Rapids	Saskatchewan	472	1965
Great Falls	Winnipeg	132	1928
Seven Sisters	Winnipeg	150	1952
Pine Falls	Winnipeg	82	1952
McArthur	Winnipeg	56	1955
Pointe du Bois *(Winnipeg Hydro)*	Winnipeg	72	1926
Slave Falls *(Winnipeg Hydro)*	Winnipeg	68	1947
Under Construction			
Limestone	Lower Nelson	1,280	(1992)

Financial Statements

Auditor's Report

To the Board of Directors
of the Manitoba Energy Authority:

■ *We have examined the statement of receipts and disbursements of the MANITOBA ENERGY AUTHORITY for the year ended March 31, 1985. Our examination was made in accordance with generally accepted audited standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.*

As explained in Note 2, the method of accounting used to prepare the statement of receipts and disbursements differs from generally accepted accounting principles and is not intended to present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly the receipts and disbursements of the Manitoba Energy Authority for the year ended March 31, 1985.

Arthur Andersen & Co.

Arthur Andersen & Company
Winnipeg, Manitoba

Statement of Receipts and Disbursements

The Manitoba Energy Authority

Statement of Receipts and Disbursements
For the year ended March 31, 1985

Receipts:	
Department of Energy and Mines appropriation	$ 249,808
Advances from the Province of Manitoba	625,000
	874,808
Disbursements:	
Operating expenditures -	
Personnel services (note 4)	264,838
Grants	10,000
Transportaion	44,823
Communication	19,747
Supplies	23,782
Professional services	261,974
Debt financing (note 3)	30,970
Other operations	49,778
Total Operating Expenditures	705,912
Capital Expenditures -	
Leasehold improvement	65,174
Furniture, furnishings and office equipment	54,180
Word processing and computer equipment	47,932
Total Capital Expenditures	167,286
Total Disbursements	873,198
Excess of Receipts Over Disbursements	$ 1,611

The accompanying notes are an integral part of the statement.

Notes To Financial Statements

For the year ended March 31, 1985.

1. Authority

The Manitoba Energy Authority is incorporated under a specific Statute in the Province of Manitoba, being "The Manitoba Energy Authority Act", (assented to July 29, 1980), Chapter E 112 of the Statutes of Manitoba, 1980.

The Authority is responsible for developing and implementing policies to ensure the long-term stability and availability of electrical energy supply to Manitobans. The Authority is also responsible, through its Electrical Energy Marketing Committee, for negotiating export sales of electrical energy with other provincial utilities and with utilities in the United States.

2. Significant Accounting Policies

a) General

The accompanying Statement of Receipts and Disbursements has been prepared in accordance with the Government of the Province of Manitoba's cash basis of accounting, including the accounting for pension costs as set out in Note 2 b).

Expenditures are recorded on a cash basis, modified to allow an additional forty-five days after the end of the fiscal year for the processing of payments pertaining to that fiscal year.

Capital acquisitions of all kinds (defined as real property and chattels that are deemed to have an economic life in excess of one year) are recognized as expenditures in the year of acquisition.

b) Pension Costs

A reciprocal agreement exists between the Province and the Manitoba Energy Authority which permits three of its employees to continue as members of the Civil Service Superannuation Fund. For these employees, the Authority is required to contribute 50% of the pension disbursement made to retired employees in accordance with the Manitoba Civil Service Superannuation Act.

Pursuant to subsection 29 of The Manitoba Energy Authority Act, the Lieutenant Governor in Council has directed that The Civil Service Superannuation Act apply to employees who were employed under The Civil Service Act immediately prior to becoming employed as officers or employees of the Manitoba Energy Authority effective the date on which they became employed with The Manitoba Energy Authority. In accordance with the provisions of the Manitoba Civil Service Superannuation Act, the Authority is required to contribute 50% of the pension disbursement made to retired employees. Such payments are to be charged to operations as incurred and provision is not made in the accounts to fund current or past service obligations to the Superannuation Fund. No such payments were made for the year ended March 31, 1985. An acturarial evaluation has yet to be undertaken to determine the unfunded liability which exists for the Authority's participating staff.

The Authority has also established a Money Purchase Pension Plan for those employees who do not contribute to the Civil Service Superannuation Fund. This Plan provides for full vesting after a qualifying period by the employees. Both the Authority and the employees contribute to the Plan on the basis of the employees' regular salary.

3. Capital Authority

The Legislature has authorized the borrowing and spending of monies for the operations of the Manitoba Energy Authority as follows:

(a) Legislative Authority - The Loan Act, 1984

(b) Authorization - $5,000,000

(c) Unexpended balance as at March 31, 1985 - $4,375,000

Advances of $625,000 bear interest at the prevailing bank prime rate and accrued interest is paid quarterly from an appropriation of the Department of Energy and Mines. Advances are repayable at any time in whole or in part at the option of the Lieutenant Governor in Council.

4. Future Commitments

As at March 31, 1985, the Authority has future commitments relating to its lease for premises (to May 31, 1987) and other leases and maintenance agreements totalling approximately $60,000 annually.

The Authority has entered into employment contracts with six of its employees. These agreements terminate during the period July 31, 1986 to October 2, 1987. These agreements entail an annual commitment of approximately $350,000.

5. Alcoa - Joint Study Costs

In accordance with Article 6:01 of the Letter of Understanding made March 28, 1984 between Aluminum Company of America (Alcoa) and the Province of Manitoba, Alcoa shall be fully responsible for all costs of the joint study (Article II) incurred and approved prior to March 31, 1985, and shall reimburse Manitoba for expenditure of such costs. Alcoa has decided not to enter into a binding agreement or agreements to proceed with construction of an aluminum smelting facility within the Province of Manitoba; $22,889.89 is recoverable at March 31, 1985 for the Authority's expenditures. This recovery has not been reflected in the Statement of Receipts and Disbursements.

6. Northern States Power Company (NSP) Contract

The Authority negotiated and is co-signer with The Manitoba Hydro-Electric Board in an agreement to supply 500 MW or 500,000 kilowatts of power to NSP for a 12-year period - May 1, 1993 to April 30, 2005 at an annual average capacity factor of 75%.

It is anticipated that the Authority will be reimbursed for expenses incurred in negotiating export sale agreements.

7. Limestone Industrial and Employment Benefits Coordination

The Manitoba Energy Authority is responsible for coordinating all departmental/Manitoba Hydro activities relating to industrial and employment benefits associated with the Limestone Generating Station project.

The Manitoba Jobs Fund provides funding for all Limestone related expenditures except the salary of the Information Services Co-ordinator, which is paid by the Authority.

8. Related Party Transactions

The Province of Manitoba, through the Department of Energy and Mines, provides administrative services to the Authority without charge for such services. Management estimates that the value of these services is approximately $10,000.

9. Comparative Figures

The Manitoba Energy Authority has been active since its inception through its Electrical Energy Marketing Committee and its Energy Allocation Committee. Annual reports on its affairs have been tabled with the Legislature and referred to the Standing Committee on Public Utilities and Natural Resources of the Legislature.

During the fiscal year under review, the Manitoba Energy Authority established its own corporate offices and acquired its own employees. In previous years since its inception, the activities of the Authority have been carried out through its established Committees and the costs related to the operations have been budgeted for and paid out of appropriations of the Department of Energy and Mines.

Directors

Marc Eliesen - *Chairperson*
Executive Director
Manitoba Energy Authority

Saul Cherniack - *Vice-Chairperson*
Director
Manitoba Hydro

John Arnason
Chief Executive Officer
Manitoba Hydro

Alan Puttee
Executive Officer-Energy Policy
Manitoba Energy Authority

Patty Park
Special Assistant to the Minister
Department of Energy and Mines

Management

Marc Eliesen
Executive Director

Alan Puttee
Executive Officer - Energy Policy

Gordon MacLean
Senior Economic Consultant

Peter Ferris
Employment Services Officer

Leslie Turnbull
Executive Assistant & Policy Analyst

Ron Bailey
Information Services Coordinator
Limestone Development Offices

Garry Hastings
Management Services Officer
Secretary-Treasurer to the Board

Corporate Information

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Winnipeg, Manitoba
R3C 4A5

Auditors:
Arthur Andersen & Co.
Winnipeg, Manitoba

MANITOBA ENERGY AUTHORITY